

METROPOLITAN NASHVILLE OFFICE OF INTERNAL AUDIT



INTERNAL AUDIT PERFORMANCE REPORT
February 1, 2019, through January 31, 2020



Report to Metropolitan Nashville Audit Committee

February 11, 2020

Members of the Metropolitan Nashville Audit Committee
Metropolitan Government of Nashville and Davidson County
Metro Courthouse
Nashville, TN 37201

Members of the Metropolitan Nashville Audit Committee:

The Metropolitan Nashville Office of Internal Audit is pleased to present its performance report highlighting accomplishments and audit work completed between February 1, 2019, and January 31, 2020. During this period the Office finished 14 performance audits, 2 hotel tax audits, and 1 investigation.

Since the Office reconstituted as an independent agency in 2007, over 1,723 audit recommendations have been reported to improve the Metropolitan Nashville Government. This past year 100 percent of the 76 recommendations to improve government services were accepted by management with implementation plans. Also, the Office accommodated four requests for audit services from Metropolitan Nashville Government management and the Metropolitan Nashville Council.

The content of these reports are at www.nashville.gov/internal_audit. A summary of the audit projects completed starts on page 7. Please note the breadth of audit coverage accomplished over the past five years as shown on page 15. It is my hope that you find this report to be a valuable resource and you will contact us with any questions or concerns related to the Metropolitan Nashville Office of Internal Audit.

I appreciate the Metropolitan Nashville Audit Committee's strong, continued support of the internal audit function.

Sincerely,

Gina Pruitt
Gina Pruitt
Interim Metropolitan Auditor

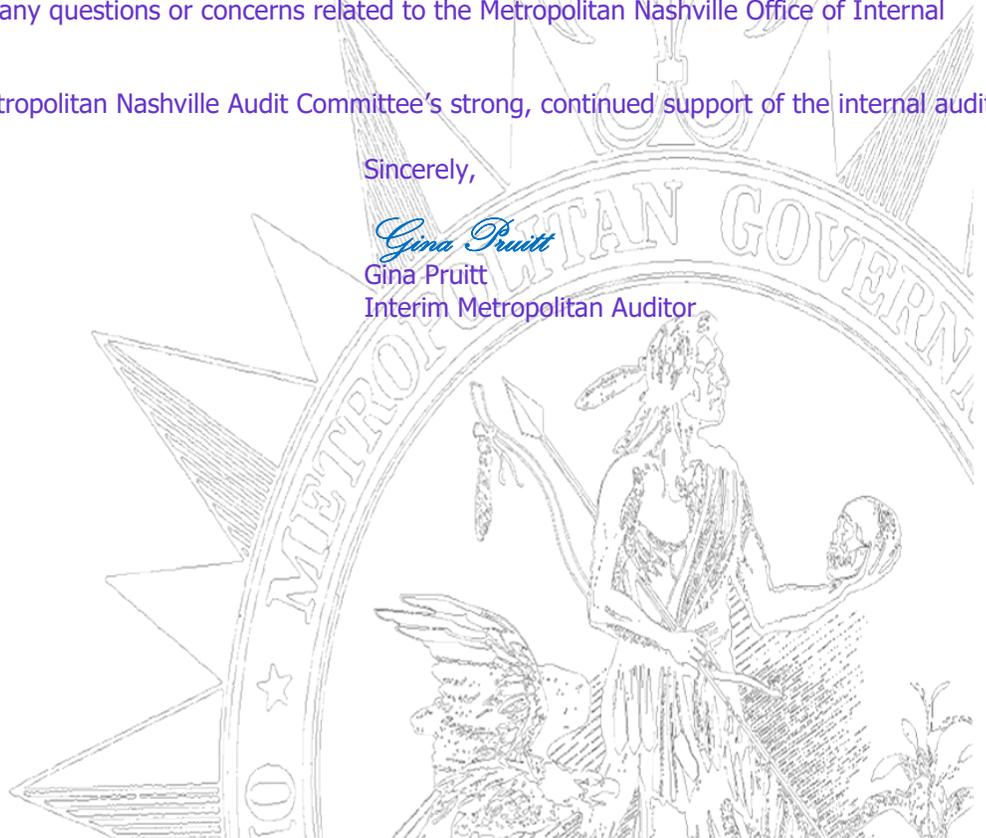




Table of Contents

OUR MISSION	3
OUR ACCOMPLISHMENTS	4
REPORTING STRUCTURE	4
METROPOLITAN NASHVILLE AUDIT COMMITTEE MEMBERS	5
METROPOLITAN NASHVILLE AUDIT COMMITTEE	5
INTERNAL AUDIT STAFF	6
PROFESSIONAL CREDENTIALS	6
SUMMARY OF PERFORMANCE AUDIT PROJECTS	7-11
ORGANIZATIONAL IMPAIRMENTS	12
RISK GUARDS	12
AUDIT RECOMMENDATIONS IMPLEMENTATION STATUS.....	13
PERFORMANCE MEASURES	14
METRO NASHVILLE RED FLAG FRAUD, WASTE, & ABUSE HOTLINE	14
OFFICE OF INTERNAL AUDIT COVERAGE MAP	15
CONTACT INFORMATION	16

Our Mission

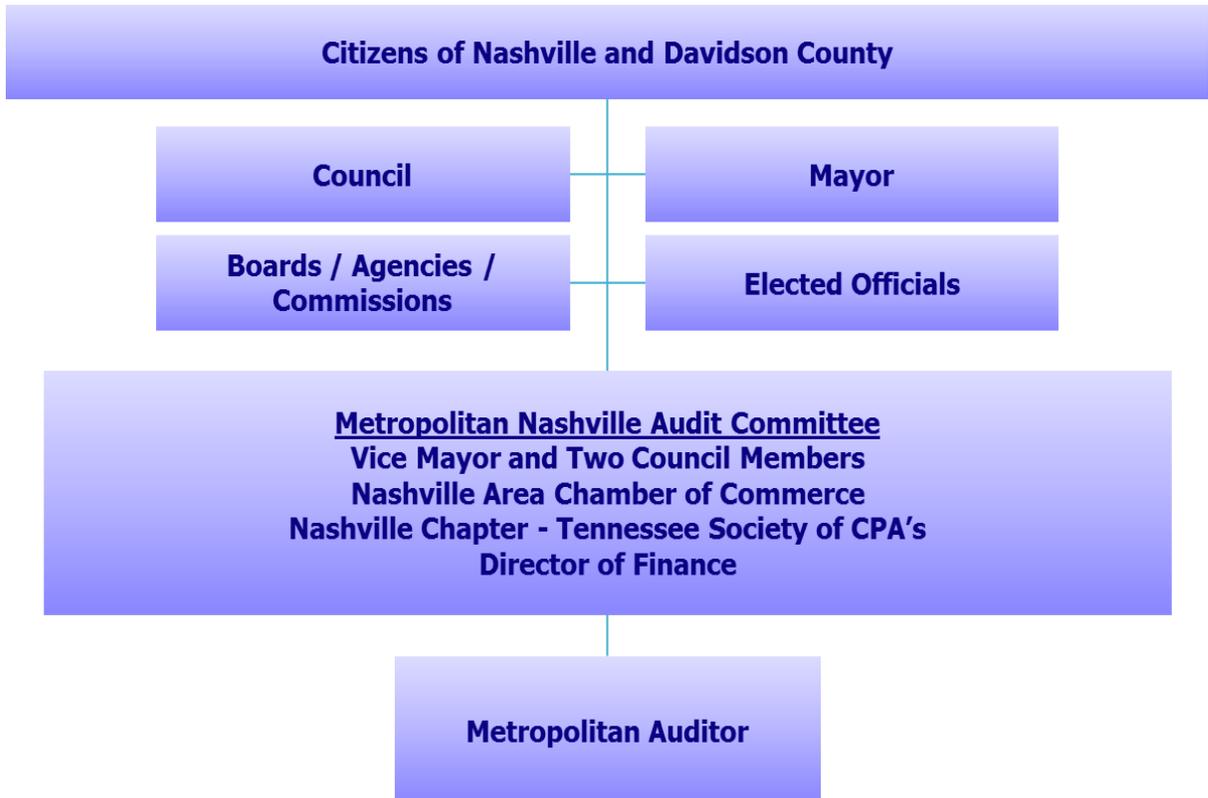
The Office of Internal Audit is an independent appraisal agency established to ensure and enhance the integrity, equality, accountability, effectiveness, and efficiency of service activities and to pursue an atmosphere of honesty and mutual trust within the Metropolitan Nashville Government.



Our Accomplishments

- Conducted 14 audits where 76 recommendations were identified with a 100 percent acceptance rate.
- Completed one request for investigation of fraud, waste, and abuse matters.
- Processed duplicate payment reports on behalf of the Metropolitan Nashville Government Department of Finance.
- Accommodated 4 Metropolitan Nashville Council and management requests pertaining to:
 - State Trial Court’s Drug Court (DC4) Operations
 - Nashville Fire Department’s Fire Marshal’s Office Operations
 - Four Architectural and Engineering Vendor Audits
 - Hotel Occupancy Tax
 - Metro Clerk Lobbyist Registration and Disclosure

Reporting Structure





Metropolitan Nashville Audit Committee Members

Representing	2019– 2021
Vice Mayor	Jim Shulman
Council Representative	Thom Druffel
Council Representative	Zulfat Suara
Director of Finance	Kevin Crumbo
Nashville Chapter of the Tennessee Society of CPAs	Charles Frasier
Nashville Area Chamber of Commerce	Brackney Reed

Metropolitan Nashville Audit Committee

The Office of Internal Audit reports directly to the Metropolitan Nashville Audit Committee. This reporting structure fully complies with independence standards required by the American Institute of Certified Public Accountants, the Institute of Internal Auditors, and United States Government Accountability Office.

The Office of Internal Audit strives to meet the Committee’s expectations for integrity, objectivity, and independence by applying professional auditing standards to all engagements. This office is committed to functioning professionally and efficiently in all business matters.

The Metropolitan Auditor meets with the Metropolitan Nashville Audit Committee at least quarterly to discuss audit reports released during the previous quarter. The Committee also approves the annual internal audit work plan and reviews the Metropolitan Nashville Government annual financial reports with the external auditors.

Meeting agendas and minutes are posted on the Metropolitan Nashville Audit Committee’s website at: <https://www.nashville.gov/Government/Boards-and-Committees/Committee-Information/ID/51/Metropolitan-Nashville-Audit-Committee.aspx>



Internal Audit Staff



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Abilene Christian University,
BBA-Accounting



Ted Ciuba
Internal Auditor I
University of Tennessee,
BS-Finance, MBA, Finance

Professional Credentials

CPA - Certified Public Accountant

CISA - Certified Information Systems Auditor

CIA - Certified Internal Auditor

CGFM - Certified Government Financial Manager

CFE - Certified Fraud Examiner

ACDA - ACL Certified Data Analyst

CMFO - Certified Municipal Finance Officer



Summary of Performance Audit Projects



Hotel Occupancy Tax (02/01/2019)

Why Audited:

The audit was conducted at the request of the Office of the Treasurer to provide management assurance that hotel occupancy tax collections are accurate and complete.

What We Found:

The \$5.6 million in hotel occupancy tax and convention center tax returns reviewed were materially valid. However, a total of \$57,765 net underpaid was recommended for recovery of hotel occupancy tax and convention center tax.



Oracle R12 Implementation Report #02 (04/02/2019)

Why Audited:

The audit was initiated because of the Oracle E-Business Suite R12.2 implementation will affect Metropolitan Nashville Government's financial reporting and daily business practices.

What We Found:

Oracle E-Business Suite R12.2 has standard controls built into the system which need to be configured or customized by developers to satisfy Metropolitan Nashville Government's specific needs.

EEOC Form 164 State and Local Government Reporting Process (04/05/19)



Why Audited:

The audit was performed due to concerns around the accuracy and integrity of diversity reporting raised by Council Member Fabian Bedne.

What We Found:

The Department of Human Resources filed the 2015 and 2017 EEO-4 reports in a timely manner and overall managed reporting well. However, a small number of employees who chose not to self-identify gender or ethnicity were not included in either of the EEO-4 reports. Inconsistent ethnicity data and lack of documented procedures in EEO-4 reports preparation and submission were noted in the audit.



Office of Internal Audit



Audit of Metropolitan Nashville Arts Commission (05/24/2019, Revised 07/05/2019)

Why Audited:

The audit was conducted because the Arts Commission was assessed as a medium risk in the annual Metro-wide audit inherent risk prioritization with \$3 million in vendor payments, and the last audit was completed in 2010.

What We Found:

The Metropolitan Nashville Arts Commission has established internal policies and guidelines for administered programs to follow. However, inconsistency of applying procedure, insufficient documentation of conflict of interest, practical difficulties impeding adherence to laws and regulations, and incompleteness of information existing in the one percent fund and the close-out procedures were noted.

Development Conditions (06/03/2019)

Why Audited:

The audit was initiated due to a complaint concerning the enforcement of conditions approved in development plans.

What We Found:

Specific plans are monitored and reviewed prior to the Planning Commission and Metropolitan Council approval. However, after the final approvals, responsibility for condition enforcement is unclear. There is no assigned party to oversee the entire process and hold internal and external parties accountable.



Office of Fleet Management Follow-Up (06/03/2019)

Why Audited:

This is a follow-up audit of the September 18, 2017, Audit of the Office of Fleet Management. Initial audit and follow-up were performed due to the importance of a well-maintained fleet.

What We Found:

Out of the 19 audit report recommendations, 15 recommendations are fully implemented, 1 recommendation is still in-process, and 3 recommendations are no longer applicable.





**Barnes Fund
(06/27/19)**

Why Audited:

The audit was performed because of the emphasis of affordable housing policy in growing urban areas across the United States.

What We Found:

The Commission is unable to demonstrate that the Barnes Fund was operated in compliance with the policies and procedures. We recommend to define measures to monitor the Barnes Fund program, to create standards and test tenant income and landlord rental rate compliance, and to disclose the fair market value of donated real estate.



**Metropolitan Nashville General Government
Benefits
(10/16/2019)**

Why Audited:

This audit was initiated due to the significant amount of funding involved in medical and pension benefits and the significant impact these benefits have on recruitment and the well-being of Metropolitan Government Nashville employees.

What We Found:

Periodic audits of dependent eligibility and insurance claims processed need to be conducted. The Human Resources Department needs to ensure that overpayments do not occur when a pension benefit is transferred to a survivor, and to monitor supporting documentation from charter schools to ensure the information is accurate.

**Metropolitan Clerk Lobbyist
Registration and Disclosure
(10/18/2019)**

Why Audited:

The Metropolitan Clerk requested this audit to review the lobbyist registration and disclosure practice as a proactive measure.

What We Found:

Formal written policies and procedures need to be developed and lobbyist's financial disclosures should be made available on the Metropolitan Clerk's website for greater transparency.





**Nashville Municipal Auditorium
(10/25/2019)**

Why Audited:

The audit was initiated due to the length of time that has passed since the last audit.

What We Found:

The Nashville Municipal Auditorium does not have a methodology in place to adequately approve, track, and monitor overtime and compensatory time payroll expenditures. Controls are lacking for the cash collection process in the box office. Policies and procedures should be developed to improve the security of cash, segregation of duties between employees, custody transfers, and the timely deposit of revenue collections to the bank.



**Metropolitan Nashville Fire Marshal's
Office
(09/06/2019)
(Revised 11/19/2019)**

Why Audited:

The Metropolitan Nashville Fire Department's Director Chief requested the audit.

What We Found:

The Fire Marshal's Office has dedicated personnel to perform their tasks given the right resources. However, the following areas for improvement were identified: lack of standard operating procedures; incomplete database of all inspectable occupancies; lack of access to certain industry standards; lack of information system controls, including access, training, and non-compliance with Metropolitan Nashville Government polices.

**Cooperative Purchases Best Practices
(12/02/2019)**

Why Audited:

The audit was conducted in response to questions raised by the Metropolitan Audit Committee during an unrelated investigation.

What We Found:

The Metropolitan Nashville Government had procedures in place to justify and approve cooperative purchases. However, more documentation on the justification and approval for the cooperative purchase needs to be maintained. Additionally, formal policies need to be updated





**Unusual Fuel Transactions
(12/05/2019)**

Why Audited:

The audit was initiated due to the volume of fuel transactions and because fuel supply represents a large portion of the Office of Fleet Management’s budget. The audit was also conducted to enhance the Office of Internal Audit’s knowledge and utilization of analytical software.

What We Found:

All fuel transactions reviewed were supported by a valid business purpose. Instances were noted where fraudulent transactions had been identified, and the associated fuel cards were terminated.

**Nashville General Hospital
at Meharry**

**Nashville General Hospital Pharmacy
Operations
(12/20/2019)**

Why Audited:

This audit was initiated based on the amount of monetary transfers the Nashville General Hospital received from the Metropolitan Nashville Government and due to the high physical and monetary risks surrounding pharmacy operations.

What We Found:

Drug orders are being placed by authorized individuals and records are being maintained for the procurement of controlled substances. However, a compliance program for the 340B Drug Discount Program should be established, and the inpatient pharmacy could benefit from an inventory management system.



Organizational Impairments

There were no unwarranted restrictions on the staffing of the internal audit activity or on access by internal auditors to organization activities, records, property, and personnel during this period.

Risk Safeguards

The Metropolitan Nashville Audit Committee, along with the Office of Internal Audit and Metropolitan Nashville Government's external auditor, Crosslin, PLLC is constantly scanning the horizon for dangerous situations, such as breakdowns in management internal controls that may lead to financial misstatement, fraud, waste, or abuse of government resources.

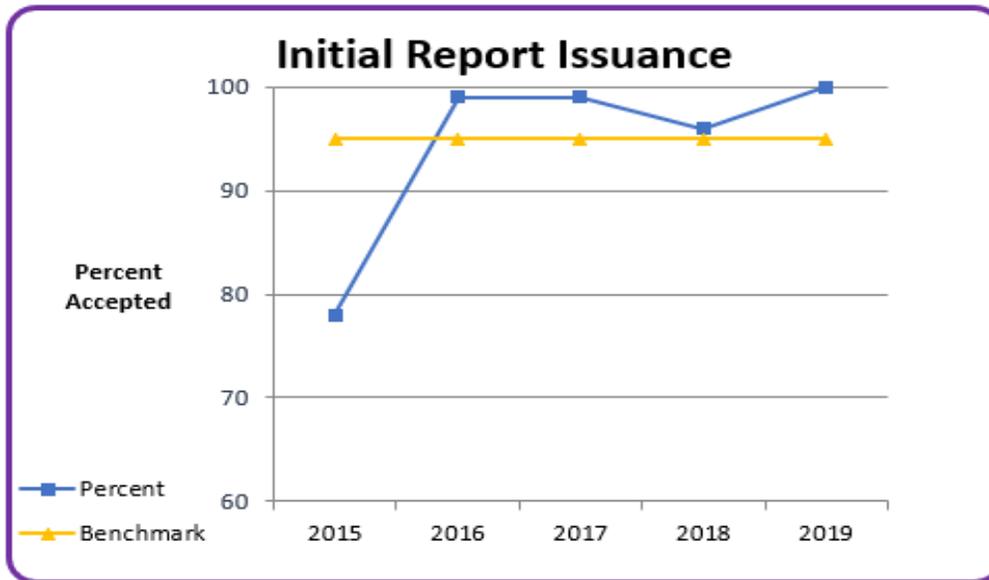
Other groups helping identify emerging risks include:

- State of Tennessee Comptroller's Audit Divisions.
- Office of Financial Accountability within the Metropolitan Nashville Finance Department.
- Metropolitan Nashville Public Schools Internal Audit.
- State of Tennessee and United States Government grant compliance reviewers.
- Contract audit service from KraftCPAs, BerryDunn, and other professional service firms.

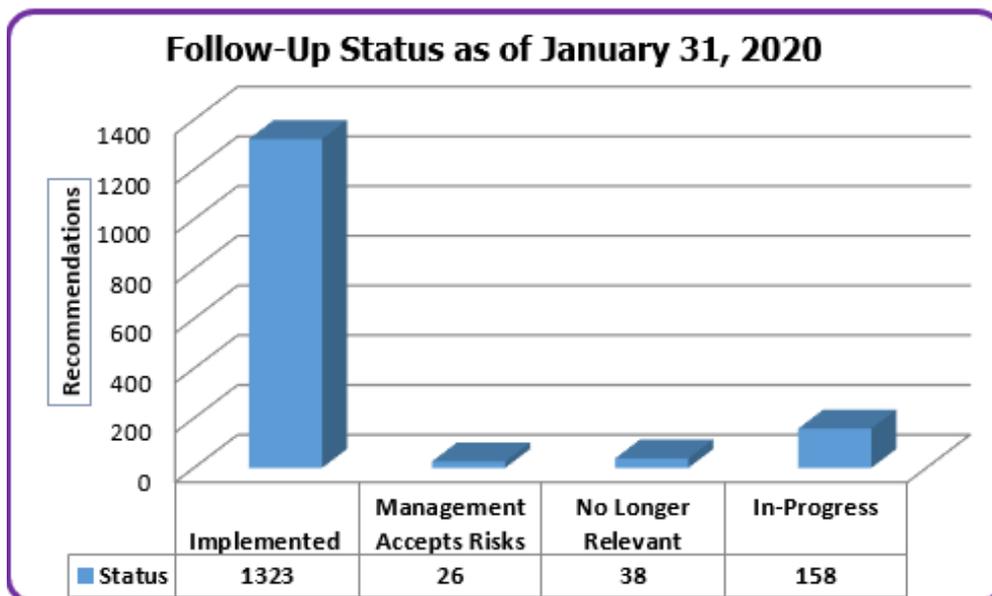


Audit Recommendations Implementation Status

The Office of Internal Audit issued 191 audit reports since being reorganized as an independent audit organization in March 2007. Internal audits in the 2019 reporting period identified 76 recommendations for improvement, with 76 (100 percent) of the recommendations being accepted when the report was issued. The Association of Local Government Auditors benchmark is a 95 percent acceptance rate.



As of January 31, 2020, departments were asked to provide implementation status for accepted audit report recommendations. Out of the 1,545 accepted recommendations, 1,323 (86 percent) were implemented and 158 recommendations were in-progress pending corrective action tasks. In-progress recommendations open in excess of one year totaled 97. Common delays were attributed to the necessity for budget funding, implementation of computer applications, or follow-up response delayed due to other pressing management priorities.





Performance Measures	2019 Goal	-----Actuals for Plan Year-----		
		2019	2018	2017
Percentage of Direct Time to Available Time (Excludes Metropolitan Auditor and Management Time)	85%	84%	83%	83%
Percentage of Recommendations Accepted	90%	100%	96%	99%
Number of Audit Projects Completed	20	14	17	16
Percentage of Recommendations Implemented within 1 Year of Report Issuance	85%	63%	36%	25%

**Metro Nashville Red Flag
Fraud, Waste, and Abuse Hotline**

Call 877-270-8334

or

<https://www.redflagreporting.com/nashville>

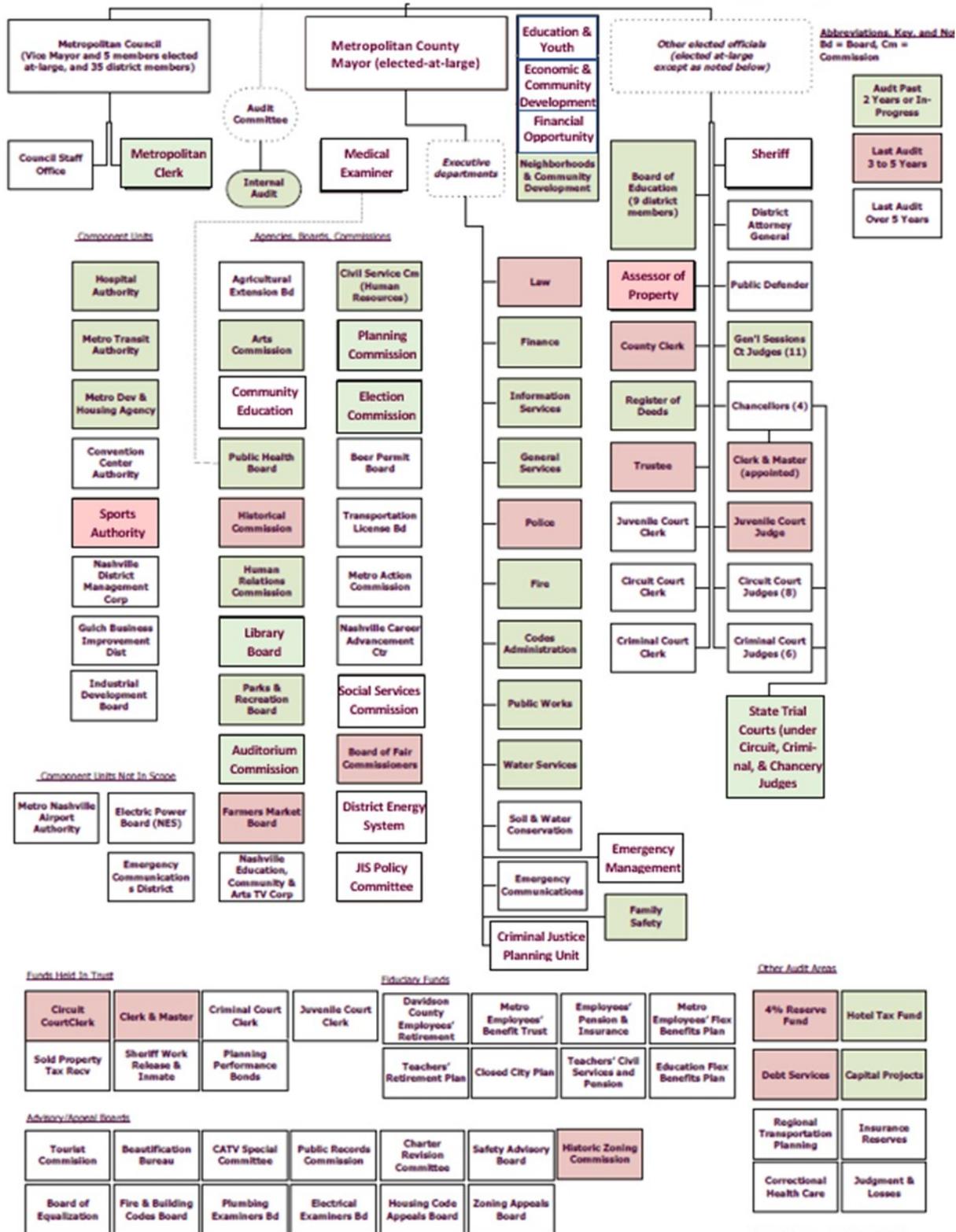


Metro Nashville Hotline Statistics

From February 1, 2019, through January 31, 2020, the Office of Internal Audit received 6 calls on the Metro Nashville Waste and Abuse Hotline that required further attention.



Attachment D - Office of Internal Audit Coverage Map



As of January 31, 2020



TRANSPARENCY

The Office of Internal Audit reports directly to the Metropolitan Nashville Audit Committee throughout the year. All final reports are available on the Office of Internal Audit's website.

WEBSITE

Visit us online: www.nashville.gov/internal_audit

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- Metro Nashville Photographer
- Canstockphoto.com
- Internal Audit Staff Photos

NOTE

This is a performance report of the Office of Internal Audit's achievements and accomplishments and should not be considered an audit report. Generally accepted government auditing standards were not used in the preparation of this report.